

# AGRICULTURAL ECONOMICS

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## PRIORITY DIRECTIONS OF THE REGIONAL FOOD COMPLEX EFFECTIVENESS INCREASE<sup>1</sup>

*In the article, the modern trends of management integration as a solution of food and sectoral problems are considered. On the basis of national and foreign experience of development of integration, the classification of integration in economic systems is developed. Based on the given classification, the concept of integration is conducted.*

*In the article, much attention is given to the food problem solution, which depends more on the agro-industrial complex based on metaintegration. The leading place of a food complex in the system of agro-industrial complex is caused by a role of food and food raw materials in life of the population of the country. The ratio of the sectors participating in the food production and consumer goods makes the sectoral structure of agro-industrial complex. In the conditions of the resource limitation necessary for the production and food delivery to the domestic market, the role of trade will increase not only in agro-industrial complex, but in all national economy.*

*Also, in this article, the phenomenon of clusters is studied. The attention to clusters as to innovation systems reflects a rising tide of interest of economic science to the questions of economics functioning in regional level and understanding of a role of specific local resources in stimulation of innovative opportunities and competitiveness of small and medium business. Creating a cluster, participants develop the spatial and organizational integrated structure, in interaction of legal entities the status is saved and cooperation provides competitive advantages with other business entities. The role of the state in integration of cluster formations in the Russian Federation is more significant, than in any other country. The state represented by regional authorities actively participates in decision-making process by the business located in its catchment area not only through membership in governing bodies of large joint stock companies.*

**Keywords:** integration, integration processes, agro-industrial complex, trade, food security, synergetic effect, cluster, competitiveness

### Introduction

The leading place in the food complex is attributed to the role of agribusiness food and food raw materials in the life of the population.

Due to objective environmental factors associated with anthropogenic climate change, the destruction of natural ecosystems, developing scarcity of land and water resources, the need for important innovative changes in all components of the complex is more and more obvious.

The needs of the active transformation of the food sector of the country have repeatedly changed as a result of a serious change of the actual geopolitical and economic situation.

At present, the formation of an integrated economy of Russia, which has begun in early 2000, not only did not lose its relevance, but rather is a priority as part of measures to improve the economic situation in the food sector.

In light of the major changes in foreign policy situation related to the events in Ukraine and in relation to the introduction of Russian economic sanctions the debate about the direction of further development of the Russian economy became more intense.

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Despite the different approaches, most scholars and practitioners have expressed the conviction of the need to transform the entire system of economic management:

- Modernization of technological and technical equipment industry;
- Thoughtful imports-substitution in strategic areas of production;
- A real improvement in the conditions and standards of living of the population [1].

These strategic objectives require a significant financial, resource and time expenditure for their development and implementation of. Meanwhile, economic theory has long already a tool allowing to find solutions with lower time and cost expenses. This refer to economic integration realized in all the economic sectors including agriculture, trade and others. The analysis of the specific impact of the integration in its different forms is the focus of our research.

### Theory

Integration is a complex economic phenomenon [2]. This complexity confirms once again the relevance and necessity of the systematic and integrated approach to the inheritance and the practical implementation of the integration.

In our opinion, the term “integration” corresponds mostly to the representation of authors Balassa and Kanheri. They treat this concept in two ways — as a process and as the characteristic of state. With this approach, it is obvious that the integration process is primary and reflects the dynamics of the transformation of the economic system, and the integration is secondary and characterizes the change in the economic system in statics [3].

Generally it can be stated that the integration is an economic category, representing the totality of organizational, economic and legal relations between entities as part of the integration structure as a whole, aimed to harmonize the economic interests of integration and synergies of the joint activities [6].

Since integration is a modern form of the implementation of global economic, inter-sectoral and inter-organizational relations, so far it has a number of functions that ensure the effectiveness of these relations and the achievement of the goals including organizational? resource, consent functions and means of overcoming contradictions.

These functions are a form of expression for public character of the integration considering its scale and management (Table 1).

At the same time, makrointegration characterizes cooperation and communication systems and economic actors at the national level, reflecting their expansion and deepening. Then restrictions on cooperation and barriers balking the common economic development can be removed, and favorable conditions for pooling of capital and enterprises are created.

Meso (meta-) integration acts as a link between the macro and micro integration and reflects the degree of cooperation achieved at the level of individual industries, commodity markets, complex of enterprises.

Micro integration is the union of the elements of the production process and funds of enterprises, as well as themselves in order to reduce the common uncertainty of the activity<sup>6</sup> restrict the competition between them and facilitate the dissemination of innovation and cost savings.

The successful implementation of the functions of integration is only possible when determining the right direction of its development, the options are a combination of these types of integration.

There is another concept in the economic theory, “vertical coordination”, which refers to “the totality of the forms and methods of harmonization of vertical stages of production and marketing” [3].

According to this definition it follows that the vertical coordination involves a wide range of interactions between the parties, from transactions on the open market of food and ending with the formation of strategic alliances interregional.

The system features characterize the essence of integration with all its diversity:

- sustainability of relations, which means the predominance of internal over external relations resulting from favorable conditions for the functioning of the parts of the structure of the integration;
- Nonlinear development due to the synergistic effect of the system.

As a result of the integration of economic agents or economic systems the dominance of the joint effect of their operation on the sum of the effects of autonomic activity is ensured [7].

$$\vartheta_{A1} + \vartheta_{A2} + \vartheta_{A3} + \dots + \vartheta_{An} < \vartheta_n, \quad (1)$$

where  $\vartheta_{Ai}$  is the effect of the independent autonomous functioning of the subject ( $i = 1 \dots n$ );  $\vartheta_n$  – the effect of joint activities within the framework of integration structure.

Table 1

Structure and content of the functions of economic integration

| Functions                    | The content of functions by levels   |  |   |
|------------------------------|--|--|---|
|                              | Macro-   | Meso-  | Micro-  |
| Organizational               | Improving of the integrity and efficiency of national economies, the blurring of borders between states (forming of international regional groupings); changes in the sectoral structure of the national economy as a result of redistribution of capital between countries with integration cooperation manufacturers | Establishment and development of long-term relations of economic entities of different domains and regions   | Ensuring of a certain order in the relations between economic entities; the acceleration of the circuit of the individual capital of business entities  |
| Stimulating                  | Improving the sustainability of the economy of the country as a whole; development of “growth points” of the national economy; establishment and development of long-term relationships of integrated structures between themselves and with financial institutions  | Aiming at the improving of the efficiency of the sectoral structure of related optimization of branch and regional structures of economic complexes  | Reducing of the cost of the final product of vertically integrated structures and product prices; development of innovative processes and motivation for positive synergies; gain of competitive advantages   |
| Resource                     | Facilitating the flow of investment resources the real economy, providing financial support to the target state promising forms of business  | The concentration of material, labor, financial, information and other resources integrated structures of various industries on promising areas of economic development                      | Concentration and accelerating the reproduction of capital; increase capacity to mobilize the necessary financial resources; attracting major investments   |
| Means of resolving conflicts | Creating the conditions for the coordinated implementation of the interests of large integrated structures and states across the national economy  | Consistency means the interests of economic entities operating in establishing economic ties with partners in the intra interaction at the level of industries and regions                   | Harmonization of economic interest within the individual businesses   |
| Matching                     | Overcoming the unity and integrity of the system of social production; strengthening of community, smooth functioning of all components of social production; increase the competitiveness of national economies as a result of close inter-organizational cooperation   | Ensuring the unity and integrity of the system of different industries and regions, promote the development of strategic and mutually beneficial inter-sectoral and inter-regional relations | Coordination of interaction of participants of integration, order and sequence of the host of the product at various stages of reproduction; connectivity of production and consumption on a more solid basis |

— Integrity and structure, expressed as a conjugate set of functional forms of development and structural levels of the organization of production, labor and management.

The main advantages of integration resulting from its implementation are:

— Integration of enterprises, leading to the formation of long-term partnerships, where the core of structural change is the upgrade of technology in the organization and management, which are involved in the intellectual and material resources from various sources;

— Integration objects gives greater access to various resources: financial, labor, material, information, new technologies, which contributes to a more productive use;

- Enables participants to work together to solve the most acute social problems;
- Protects subjects integration of competition from external parties (forces) by the formation of horizontally integrated structures and the creation of certain free zones fierce competition;
- Allows us to develop uniform enterprise based on large market community.

Three levels of management of the economy are interested in the integration of enterprises: the lower level consist of individual companies and organizations; the upper level is the State that determines the general macroeconomic conditions in the country, and the median is the regional level of government control that complements the upper and lower levels, coordinating the economic activities of companies, is a partner of the State to develop and implement a strategic line.

The need to create a vertically integrated structures associated with satisfaction of the strategic interests of the enterprises and the state to increase the competitiveness of enterprises, as they are able to flexibly handle means to carry out the investment maneuver to achieve savings of resources, to ensure the growth of labor productivity through technological modernization.

Integration into the economy at different levels of government due to the need to rectify the structural imbalances, addressing the intensification of scientific and technological progress, improve the efficiency of the economy, its competitiveness in domestic and foreign markets, promote higher standards of living.

Government support of priority sectors has a special place in the economic and social problems at the level of the country as a whole and at the regional level creates an objective need for the development and improvement of integration.

Implementation needs of economic integration in all directions and the achievement of its strategic objectives and benefits is directly related to the effectiveness of the integration processes.

Different types of integration are manifested in the formation of adequate them to integrate economic structures.

The solution of the food problem, in our opinion, depends largely on metaintegration of the agriculture.

Agribusiness (APC) is a set of economic sectors, interconnected economic relations over the production, exchange and consumption of agricultural products, as well as the industries engaged in the production of means of production for agriculture and its service.

The ratio of the industries involved in food production and direct objects of consumption is the branch structure of agriculture.

The final product of the AIC, depending on the intended use, forms a complex food and nonfood agricultural sector. The largest share of the final product is created in the food sector, which includes industries and enterprises of all spheres of agriculture, engaged in the production and bringing food to consumers.

The prevailing approach to structuring agribusiness determines not only the distribution of attention of governments to the development of its individual parts and industries, but also the financing of development.

At the present time it is impossible to claim that all the links in the agroindustrial complex functions as a whole. Essentially they work apart economically, focusing solely on the possibilities and results that suggests some of the imbalances in the structure of the complex and indicates the need to improve the integration management in this area.

The meaning and purpose of the development of integration processes in the agricultural sector are changing under the influence of external and domestic economic environment. However, the management of economic systems and processes are not fully linked to the objective reality. Agricultural industries operate and develop each in its program.

This confirms the decision different levels of government to modernize the AIC and its effectiveness<sup>2</sup>.

Recognizing the AIC as an integrated economic system, management efforts are focused on the development of agriculture and, to a lesser extent, the industries that create the necessary material resources for agricultural production.

<sup>2</sup> On the state support in agricultural insurance and on amendments to the Federal Law "On the development of agriculture": The Federal Law of 25.07.2011 № 260-FL; On the state program of agricultural development and regulation of agricultural products, raw materials and food for 2013-2020: Russian Federation Government Resolution of 14.07.2012 № 717.

The construction of model of regulated food market in Russia, begun in 2000, oriented governments and heads of branch offices in the agricultural sector for the development and promotion of self-supporting system of governance based on existing production, material and labor resources.

Emerging from the end of 2013 challenges and threats in the field of foreign projects in Russia for export and import of agricultural raw materials and food products make this approach untenable.

Revealed shortcomings of management which hinder the effectiveness of the decisions on the improvement of the AIC and the faster improvement of the situation in the food sector confirm our conclusion:

1. The planned modernization of agriculture is associated with a major investment support, a clear distribution of investments by industry and agriculture areas of specialization, that is, must be backed by solid research and reasoned decision also requires financial, human and information resources. The absence or inadequacy of feasibility study make the decisions to improve the agriculture mainly declarative.

2. The development of the agricultural sector is seen solely in support of agricultural producers to stimulate the production of agricultural raw materials, livestock products, crops, vegetable production in small and medium-sized farms. In this case the risks associated with sharp regional differences in climatic conditions, inexperience or lack of necessary personnel, weak motivation of small and medium-sized businesses that can nullify all the efforts are not sufficiently considered.

3. Today, the main directions of development of agroindustrial sphere on the basis of integration are:

- Creating processing facilities by agricultural producers;
- The development of vertical integration of product type;
- Organization of agricultural producers and processors associations for the joint production, processing and sales.

The period of the modernization and the restructuring of agriculture and industrial facilities in various areas which ensure them is not a short term, but the real effect of the abovementioned actions may also occur only after 3-5 years; at the time when the saturation of the domestic market requires immediate action;

4. The improvement of the agro-industrial complex as an integrated economic structure at the different levels of management is focused on the growth of agricultural production, reducing its cost, increase profitability — as the basis of innovation resource base of individual industries, farms and agricultural enterprises.

Organizational and financial support of food industry and trade are deficient, although their inefficient functioning renders meaningless or impossible the development of agriculture and other branches of industry. It is impossible to produce food in the absence of agricultural raw materials and food products trade successfully with a lack of production.

Thus, a systematic analysis of the food complex shows that the essential condition for improving its effectiveness is not only the reform of economic relations, but also the management of all the members of the agribusiness industry sectors and integrated structure in general.

In our opinion, at the present stage the emphasis should be on the further development and improvement of integration throughout the APA and in each of its constituent industries with the position of synergies.

Regarding the above mentioned we offer a new approach to assessing the synergies from the integration processes in the food sector of the country. We believe that such an effect is not only the volume of industrial, agricultural and food products, or the number of business entities and their technical equipment in the agricultural sector as a real saturation of the food market in goods and ensure the highest possible economic, social and territorial accessibility and usefulness for the population of Russia.

Under these circumstances, the optimal development of the agro-industrial complex of Russia should be primarily focused on the capacity of the domestic food market, on the basis of which to form an adequate resource base and technological, territorial, organizational and marketing infrastructure [10].

In this regard, given the limited resources necessary for the production and supply of food for the domestic market the role of trade, not only in agriculture, but also the entire national economy will increase. This is because the trade:



- Provides the population of food necessary for the reproduction of not only labor, but also of human life;
- Daily, constantly and everywhere is in contact with the public, has sufficient information on the volume and needs of the population in various foods, beverages, and its variability in social, national and territorial basis;
- Being based on sustainable development trends of intra-trade structure, reveals consumer preferences and changes in consumer behavior in the field of nutrition;
- Being active in the food market, provides economic and geographical availability of food to the population, solving one of the most important conditions for ensuring food security;
- Through contractual agreements with agricultural production and food producers, selects (in a competitive market), the most effective partners and provides them with the necessary market information about the real needs for goods, which eliminates the inefficient use of scarce resources and reduce unmet need population groups and types of goods;
- In operating food market in every region of the country, promotes the development of regional specialization and territorial-economic complex due to inter-sectoral and inter-territorial processes in the trade.

Integration in all fields (cooperation, specialization, differentiation and diversification) is widespread in the trade and the experience and the consequences of its introduction perceptibly affect the development of integration processes in the agricultural sector, contributing to the improvement of food complex of the Russian Federation<sup>3</sup>.

Classification and systematization of industry factors (intraregional) effect on integration are presented in Table 2.

Table 2

**Main factors affecting trade**

| <b>Factors</b>                | <b>Characteristics</b>   |
|-------------------------------|--|
| Commerce and industry factors | Politics in the development of local government and trade areas regulating the activity of the sector; size, composition and structure of trade enterprises in the territory; the size and composition of sales staff; forms and methods of trading service, the level of implementation and achievements of STP STR; culture and trade quality trading service; the degree of concentration of commercial capital and the development of integration processes  |
| Market factors                | The volume of production of consumer goods (domestic production); import, export, export, import of consumer goods (characteristics of trade flows on the basis of inter-territorial and transnational development); logistic system (the system of distribution of goods); structure and quality of the commodity resources of consumer goods; total money income, their purchasing power; different in size and structure of the public demand of various social groups in income; the level of prices for goods and services; rate of inflation; the degree of competition in the consumer market |
| Territorial factors           | Land area, population and population density; distribution of population in cities and rural settlements; especially the economic production complex; infrastructure (transport, social, scientific, etc.); standard of living and consumption areas (the level of culture, the level of marital status); natural and climatic characteristics of the region   |

Obviously, the effect of selected factors on the actual integration in trade is difficult to estimate directly, but it is clearly apparent in the evaluation of synergies from the integration in the food complex metalevel.

Specificity of trade, its inextricable and constant communication with the public, on the one hand, and the suppliers, manufacturers, on the other hand, contribute to quick results, reflecting the effectiveness of the Board not only the trade but also, directly or indirectly, the efficiency of agricultural industries and this integrated structure as a whole, that is in fact an opportunity to assess the synergistic effect of the industrial complex.

Criteria synergies from metaintegration in food complex may make regional trade indicators that reflect the degree to ensure the optimal functioning of the economic complex of the region,

<sup>3</sup> On the Principles of State Regulation of Trade in the Russian Federation: Federal Law of 28.12.2009 № 381-FL.

increasing the satisfaction of demand of the population and the quality of the trade services through the development of intersectoral, inter-territorial and inter-state relations.

They include:

- The volume and dynamics of the turnover of food products in general and per capita;
- The dynamics of the turnover of food products in the context of the major commodity groups;
- Dynamics provide turnover for food products in consumer demand;
- Volume, structure, dynamics and consumption of major food commodities in general and in social groups and areas;
- Resource structure of food products supplied to the market trade from domestic and foreign producers;
- Quality Characteristics received food and food products to the regional market;
- The amount and pattern of loss of food products during transportation, storage, packaging and selling.

The study of the integration processes in commerce and trade, as it should be emphasized, allows you to quickly with minimal financial resources and guidance to bring home food complex to innovative development and optimize the domestic production of food and food products, as well as the internal situation on the food market.

Currently, it can be noted that the theory of economic integration was developed in the concept of clustering of the economy.

The classic definition of economic cluster as a group of interconnected companies geographically promotional and related organizations operating in a certain area, characterized by common activities and complement each other, was given by M. Porter [8]. However, he focused on three properties of clusters: geographic location, the relationship between enterprises and technological interdependence of industries.

The borders of modern cluster largely reflect economic reality and not necessarily coincide with the administrative and even political boundaries.

For example, R. Martin and P. Sunley declare the cluster as a constructor that does not have clear boundaries in terms of relationships between companies and sectors, information systems and geographical coverage [9]. This allows us to talk about the phenomenon of inter-regional and even cross-border, cross-industry and other Polystructural forms and varieties of clusters, whose boundaries are defined by the possibility of a direct interaction between enterprises.

In the economic literature of different countries the phenomenon of clusters has been studied. The attention to clusters as innovation systems reflects the interest of economics objection to the functioning of the economy at the regional level and awareness of specific local resources in stimulating the innovation capability and competitiveness of small and medium-sized businesses.

One of the first researchers of the competitiveness of small and medium-sized businesses was a classic economist Alfred Marshall [11]. At 1890 in his work "Principles of Economics", he pointed out the benefits of this concentration:

- The presence of a common market of specialized workforce;
- Specialized supplies and services;
- The rapid spread of advanced technologies.

According to M. Porter [8] clusters are a group of geographically neighboring companies and organizations related to the general scope and complementing each other.

From the point of view of industrial policy clusters fundamental difference from other territorial entities is as follows:

- Geographically concentrated set of companies, including the related industries. The basis of the cluster — successful, strong market participants;
- Wide range of participants, including research centers, scientific institutions, training courses, service and marketing centers, government agencies, small businesses;
- Business atmosphere territory (business and creative relations with other regions and countries, the exchange of ideas, technologies and best practices).

In general opinion of foreign and domestic scholars, the most significant advantages of cluster organization technologies lies in the fact that they:

- Provide joining efforts of entrepreneurs and governments to address the socio-economic problems and represent one of the really effective mechanisms for public-private partnerships;

- Are the most effective tool for enhancing the contribution of small business in the competitive area of private and entrepreneurial initiative in the innovation and scientific and industrial area;
- Are crucial to improve the export-import balance of the territory and increase the efficiency of each member of the cluster project.

By creating a cluster the participants form a spatially-integrated organizational structure, in which the interaction occurs between them, while maintaining the status of legal persons, and cooperate with each other provides a competitive advantage to other objects of management.

As the residents of the cluster remain legally independent participants in the food market, in their activities they pursue common aims as part of their own interests, and the formation of integration relations with other market participants are considered as a means of obtaining additional benefits.

This fact reveals a special form of inter-organizational cooperation, which manifests itself in a combination of competition and cooperation. It should be recognized that the effectiveness of economic clusters is based on the mandatory application of the principles of construction of self-organization, the intra-cooperation and contention, kvaziintegration (assuming common economic interests), corporate, long-term cooperation, dynamic, comprehensive utilization of resources and others.

In the agro-industrial complex the cluster organization of the regional economy is possible in a very narrow list of food systems because of the absence of the possibility of applying the basic features of the cluster organization.

Among the main problems of large-scale and effective use of clustering technologies are the following:

- The lack of informativeness of representatives of the executive authorities and businesses in the application of the cluster approach;
- The absence of effective methodological framework that ensures the use of cluster organizational technologies;
- Unpreparedness experts on the application cluster technology;
- The lack of public policies that ensure a systematic approach and the organization of the interaction of different levels of government implementation of cluster projects, and as a consequence — the lack of organizational and financial support for cluster projects.

Because of this, the subject of attention of managers of the food sector and the leaders of regional authorities should be the development of integration relationships of various companies, the most important area of activity is to improve the quality of human life, its primary solution of the social problem — decent food supply.

The proximity of market entities resources, their belonging to a particular segment of AIC, their technological interdependence and mutual focus on local markets allow, in certain cases do not allow to create clusters corresponding Porter's concept and apply the cluster approach, developing the classical theory of clustering.

As a starting point the use of the cluster approach in every segment of the food market the result of the synergistic interaction of its subjects should be considered. Such a result, in our opinion, is the optimal size of the market, providing the best possible match supply and demand in terms of volume and quality throughout the region at any given time. Achieving such compliance may not only based on the integration of economic cooperation, but also through the development of information exchange.

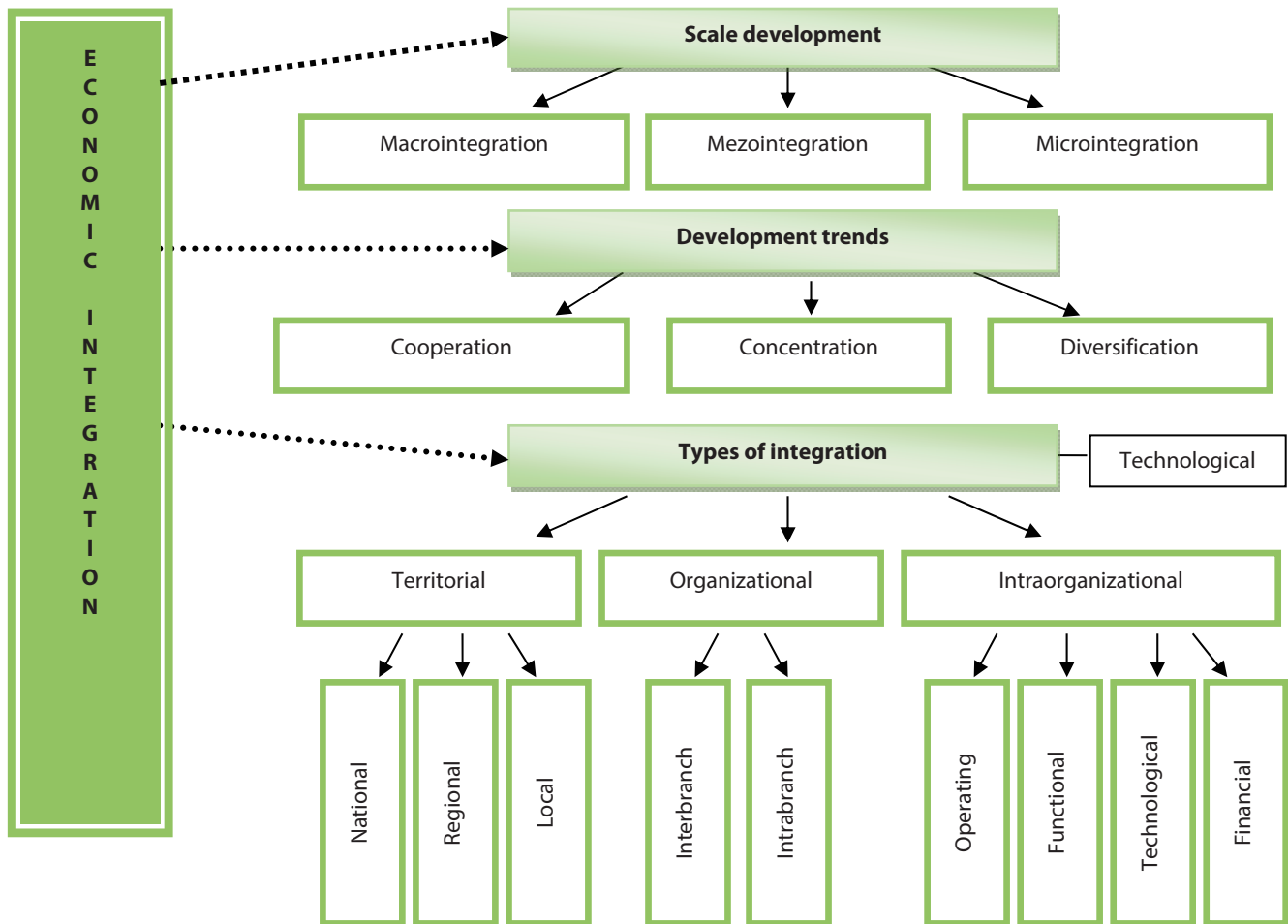
The reality of today's economy is associated with an increasingly needed information all participants of market interaction.

The innovative character of the cluster approach in the current territorial and sectoral organizations of the food market lies in quick availability of cheap and operational information on the market situation, not only in its own region, but also in its associated territories. Analysis of pooled data (about the producers of agricultural products and raw materials, producing food companies displaying their products at the market, the technological features of production, storage and delivery of goods at the local level, the degree of compliance of commodity supply and demand on the market sector and private sector goods and new trends in production, sales and consumption of goods and so on target. n.) not only promotes a more thoughtful development of vertical integration within the region, but also the construction of inter-regional and cross-sectoral integration structures, the boundaries of which are determined by the possibility of direct interaction between profitable enterprises.



## Methods and models

Basing on domestic and foreign experience of integration, we have developed a classification of economic integration in the systems which are shown schematically in Figure.



**Fig.** Classification attributes of integration in the economy [4; 5]

## Results

In addition, using this classification, as well as on the basis of the analysis we can draw some conclusions.

1. The development of integration allows to connect a personal, collective and public interest, creates real opportunities for economic growth, determines the ways and means of effective functioning of industries, stabilizes further develop and improve the efficiency of production and sales of food, which is especially important for the agriculture of the country, characterized by its fragmentation elements.

2 Integration of the economy at different levels of government due to the need to rectify the structural imbalances, addressing the intensification of scientific and technological progress, improving the efficiency of the economy and its competitiveness in the domestic and foreign markets, promote higher standards of living that determines the value of the integration mechanism, especially in the face unstable macroeconomic situation caused by the events in Ukraine and the aggressive policy of the Western countries that led, in particular, the imposition of the embargo.

3. Integration processes in the trade stimulate the development of the food industry.

4. “Clustering” the food sector as a form of integration will allow to address current challenges facing the industry more effectively.

## Conclusion

The state’s role in the integration of cluster formations in Russia is more important than in any other country. The state, represented by the regional authorities, is actively involved in decision-making in business, located in the jurisdiction of its territory not only through membership of the

governing bodies of large joint-stock companies. The effective tools, which encourage the formation of integrated communications and structures, include the implementation of targeted and comprehensive programs of regional socio-economic development and, above all, food security, and the promotion of a consistent cluster approach of the heads of economic entities in food sector.

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